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Annual Report

of

STRAWBRIDGE & CLOTHIER

for the fiscal year ended January 31, 1948

PHILADELPHIA 5, PA.

Board of Directors

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Robert E. Strawbridge, *Chairman*

Herbert J. Tily	Dwight G. Perkins
Frederic H. Strawbridge	Donald C. Mills
Isaac H. Clothier, Jr.	Isaac H. Clothier, 3rd
Francis R. Strawbridge	Francis R. Strawbridge, Jr.
Howard Cooper Johnson	G. Stockton Strawbridge
J. Clayton Strawbridge	Robert E. Strawbridge, Jr.

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Officers

Robert E. Strawbridge..... *Chairman of the Board*
Herbert J. Tily..... *Vice-Chairman of the Board*
Dwight G. Perkins..... *President*
Isaac H. Clothier, Jr..... *Vice-President*
Howard Cooper Johnson..... *Vice-President*
J. Clayton Strawbridge..... *Vice-President and Secretary*
Isaac H. Clothier, 3rd..... *Vice-President*
Francis R. Strawbridge, Jr. *Vice-President and Assistant Secretary*
G. Stockton Strawbridge..... *Vice-President*
Donald C. Mills..... *Treasurer*
Thomas G. Patton..... *Assistant Treasurer*

STRAWBRIDGE & CLOTHIER

Annual Report

To Our Stockholders:

This is the annual report of Strawbridge & Clothier's eightieth year in business and it covers the Company activities and the results of the fiscal year ended January 31, 1948. Included are the financial statements certified by Ernst & Ernst, accountants for the Company.

Sales, Transactions and Earnings

Because of the increased level of prices it is not surprising that the net dollar sales volume for the year was the highest in the Company's history, but it is gratifying to inform you that this was likewise true of the number of sales transactions with our customers. A summary of the year's results, compared with the previous year, follows:

	1947	1946
Profit before taxes on income	$6,909,596	$7,815,861
Taxes on income	2,818,000	3,200,000
Net Profit	$4,091,596	$4,615,861
Dividends declared on preferred stock	449,735	468,050
Dividends declared on common stock	575,129	
Profit reinvested in the business	$3,066,732	$4,147,811
Earnings per share on common stock	6.35	7.21

Increased operating costs, including services, supplies and payroll, are mainly responsible for the decline in our net profit. 1947 was the first full year of operation under the 40-hour, 5-day week plan, adopted in September 1946. Although this has increased our payroll costs, we believe that it has improved company-employee relations. In addition, it was necessary to make equitable salary adjustments to meet the increased cost of living. These two factors combined have substantially increased our payroll cost in relation to dollar sales.

Financial Condition

During the past year substantial improvement has been made in the Company's financial condition, due primarily to the retention in the business of a large portion of the earnings. The following comparative figures reflect the major changes which occurred during 1947:

	January 31 1948	January 31 1947
Total Assets	$35,257,475	$31,772,137
Current Assets	18,937,045	15,615,841
Current Liabilities	6,810,050	7,444,439
Net Working Capital	12,126,995	8,171,402
Long-term Indebtedness	4,456,261	3,259,250
Preferred Stock	8,994,700	9,251,000
Common Stock and Surplus	14,550,179	11,524,598

At January 31, 1948, the ratio of current assets to current liabilities was 2.78 to 1, and our current assets were $7,224,448 in excess of all liabilities, including long-term indebtedness. At no time during the year was it necessary to resort to short-term borrowing even though there were substantial increases in our investment in customers' accounts and merchandise inventories.

As stated in prior reports, our merchandise inventories are priced on the "LIFO" method which permits us to value a large portion of our stocks on the basis of price levels existing on January 31, 1941.

The Commissioner of Internal Revenue had previously challenged this method of department store inventory valuation. But in 1946 the U.S. Tax Court handed down a decision approving, in principle, the price index method used by many retail establishments as their basis for "LIFO" pricing. Recently the Commissioner of Internal Revenue approved the use of the U.S. Bureau of Labor Statistics Price Indices. As a result it is expected that the Company's Federal Income and Excess Profit Taxes for all years subsequent to January 31, 1941 will soon be settled and thus the contingency of payment of about $1,000,000 of additional taxes will be eliminated.

At January 31, 1948, merchandise inventories were priced on the basis of the approved "LIFO" formula, and, as a result, the total inventory valuation is approximately $2,000,000 below current costs, of which about $450,000 was provided in the current year. Increases in the spread between current costs and inventory values have the effect of reducing profits in the year in which such increases occur, but by the same token, decreases in the event of future downward price adjustments will add to profits in the year in which the spread is reduced. This method of valuing our inventories thus constitutes a substantial provision against future price declines.

Dividends

In addition to the regular quarterly dividends of $449,735.00, declared on the $5.00 Cumulative Preferred Stock, dividends aggregating $575,129.00, or $1.00 per share were declared on the Common Stock.

Modernization Program

Substantial improvements to the sales area were made during 1947 and more are planned for 1948. But there have been no major additions to our warehouse and service facilities since our new main store was completed in 1931 despite the fact that our volume of sales and transactions has tremendously increased. As a result, these facilities are inadequate for our present day requirements.

A study is being made of needed expansion and the Company's presently owned real estate on Filbert, Eighth and Poplar Streets is available and adequate for whatever future construction is needed.

In Memoriam

On September 8, 1947, we suffered the loss of our beloved Chairman of the Board, the late Morris L. Clothier. He was a son of Isaac H. Clothier, one of the founders of the business and joined the organization in 1890; became a partner of the business in 1895; was the Company's first President in 1922 and since 1927 served as Chairman of the Board. His unremitting interest in and devotion to all that concerned the stability and progress of this business, which he loved and nurtured, contributed substantially to its success during the fifty-seven years of his activity. We miss him greatly for we respected, admired and loved him.

Executive Changes

On October 15, 1947, Mr. Robert E. Strawbridge resigned as Vice-President and was elected Chairman of the Board to fill the vacancy caused by the death of Mr. Morris L. Clothier. At the same time, Mr. Robert E. Strawbridge, Jr. was elected a Member of the Board of Directors; Mr. Isaac H. Clothier, 3rd resigned as Assistant Secretary and was elected a Vice-President of the Company; and Mr. Francis R. Strawbridge, Jr. was elected Assistant Secretary to succeed Mr. Isaac H. Clothier, 3rd. On December 17, 1947 Mr. Francis R. Strawbridge, Jr., and Mr. G. Stockton Strawbridge, were elected Vice-Presidents.

General

During the latter part of 1947, an adjustment was made in our employees' new pension plan which has been in effect since October 1945, to compensate at least in part for the increase in the cost of living.

Looking Forward

Although the increase in sales volume and transactions has continued in the first quarter of 1948, the year will undoubtedly be a more difficult one than the year just concluded, for, as we all know, many of the abnormal factors of the war and post war years are over. Whether the economic hazards of the present inflationary period will give rise to serious problems during this year is a matter of conjecture.

Our organization has been materially strengthened since the end of World War II and we have every confidence in its ability to successfully meet whatever problems we may encounter. We look upon 1948 as an opportunity to better serve an ever increasing number of customers.

In conclusion, the Board of Directors gratefully acknowledges the splendid support and cooperation of our more than 4,000 employees, without which the fine results for the fiscal year just past could not have been accomplished.

For the Board of Directors.

Dwight G Perkins

April 15, 1948. *President*

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ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE
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To the Stockholders,
Strawbridge & Clothier,
Philadelphia, Pa.

We have examined the balance sheet of Strawbridge & Clothier as of January 31, 1948, and the summary statement of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We made a similar examination and report for the year ended January 31, 1947.

In our opinion, the accompanying balance sheet and related summary statement of profit and loss and surplus present fairly the position of Strawbridge & Clothier at January 31, 1948, and the results of its operations for the year, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Ernst & Ernst
Certified Public Accountants

April 2, 1948

Comparative Summary of Profit and Loss

STRAWBRIDGE & CLOTHIER

Years ended January 31, 1948, and January 31, 1947

	Years Ended	
	January 31, 1948	*January 31, 1947*
Profit before deducting interest, depreciation and provision for federal and state income taxes	$7,538,915.25	$8,362,561.98
Deduct:		
Interest	142,354.33	127,131.21
Depreciation	486,964.94	419,569.77
	$629,319.27	$546,700.98
PROFIT BEFORE TAXES ON INCOME	$6,909,595.98	$7,815,861.00
Taxes on income:		
Provision for the current year—estimated:		
Federal income tax	2,405,000.00	2,900,000.00
State income tax	260,000.00	300,000.00
Income taxes on installment sales gross profit (deferred for tax purposes)	153,000.00	—
	$2,818,000.00	$3,200,000.00
NET PROFIT	$4,091,595.98	$4,615,861.00

Statement of Surplus

Capital surplus:			
Balance at February 1, 1947			$839,218.33
Deduct cost in excess of par value of capital stocks acquired			33,521.00
BALANCE AT JANUARY 31, 1948			$805,697.33
Earned surplus:			
Balance at February 1, 1947		$7,807,704.81	
Add net profit for the year		4,091,595.98	
		$11,899,300.79	
Deduct cash dividends declared:			
$5.00 cumulative preferred stock ($5.00 per share)	$449,735.00		
Common stock ($1.00 per share)	575,129.00		
	$1,024,864.00		
Less cancellation of dividend on prior preference stock subsequently converted	489.60	1,024,374.40	
BALANCE AT JANUARY 31, 1948			10,874,926.39
TOTAL SURPLUS AT JANUARY 31, 1948			$11,680,623.72

See accompanying notes to financial statements.

Comparative

STRAWBRIDGE

January 31, 1948 and

ASSETS	*January 31 1948*	*January 31 1947*
CURRENT ASSETS		
Cash	$3,279,027.74	$2,680,198.60
Accounts receivable:		
Customers' charge accounts	7,183,437.20	6,088,636.07
Customers' installment accounts	2,565,520.14	1,368,186.82
Creditors' debit balances	217,757.82	147,524.20
	$9,966,715.16	$7,604,347.09
Less reserve	400,000.00	300,000.00
	$9,566,715.16	$7,304,347.09
Merchandise inventories (Note A)	6,091,302.14	5,631,295.46
TOTAL CURRENT ASSETS	$18,937,045.04	$15,615,841.15
OTHER ASSETS		
Mortgages receivable and accrued interest	41,295.64	48,988.28
Miscellaneous accounts receivable and advances	43,366.97	70,947.32
Sundry investments—at cost	144,016.00	96,026.00
	$228,678.61	$215,961.60
Less reserve	50,000.00	50,000.00
	$178,678.61	$165,961.60
PROPERTY, FIXTURES AND EQUIPMENT—At cost		
Land	5,832,303.92	5,832,303.92
Buildings and equipment	17,778,720.92	17,208,437.63
	$23,611,024.84	$23,040,741.55
Less reserves for depreciation	7,863,670.35	7,376,705.41
	$15,747,354.49	$15,664,036.14
DEFERRED CHARGES		
Prepaid expenses	142,428.78	98,117.74
Supply inventories	251,968.51	228,180.82
	$394,397.29	$326,298.56
	$35,257,475.43	$31,772,137.45

See accompanying notes

Balance Sheet

& CLOTHIER

January 31, 1947

LIABILITIES	*January 31, 1948*	*January 31, 1947*
CURRENT LIABILITIES		
Term note installments maturing currently	$ 743,739.40	$ 542,269.40
Mortgage installments maturing currently	—	40,000.00
Accounts payable	3,278,722.27	2,290,779.33
Accrued accounts	900,042.45	944,614.86
Pay roll taxes and taxes withheld from employees	138,307.51	144,002.84
Federal, state and local taxes—estimated, less at January 31, 1948, U.S. Treasury Notes, Tax Series C, of $1,500,000.00	1,577,731.18	3,444,654.70
Deposits on U. S. Savings Bond subscriptions	28,029.27	33,355.52
Dividends payable	143,477.75	4,762.50
TOTAL CURRENT LIABILITIES	$ 6,810,049.83	$ 7,444,439.15
TERM NOTE PAYABLE TO BANKS (Note B)		
Due in quarterly installments to March 1, 1955	5,200,000.00	3,711,519.56
Less principal installments maturing currently	743,739.40	542,269.40
	$ 4,456,260.60	$ 3,169,250.16
FIRST MORTGAGE ON BRANCH STORE		
Due $10,000.00 quarterly to February 26, 1950 (paid in 1947)	—	130,000.00
Less principal installments maturing currently	—	40,000.00
	—	$ 90,000.00
RESERVES		
For income taxes on installment sales gross profit (deferred for tax purposes)—estimated	341,000.00	188,000.00
For self insurance and contingencies	105,286.28	104,850.00
	$ 446,286.28	$ 292,850.00
CAPITAL STOCK AND SURPLUS		
Capital stock:		
Prior Preference Stock—Series A—6% cumulative, par value $100.00 per share, redeemable at $105.00 per share—Authorized 14,800 shares; issued and outstanding at January 31, 1947—3,175 shares	—	317,500.00
$5.00 Cumulative Preferred Stock, par value $100.00 per share, redeemable at $105.00 per share—Authorized 100,000 shares; outstanding 89,947 shares, after deducting 3,552 shares in treasury (January 31, 1947—89,335 shares)—Notes C and D	8,994,700.00	8,933,500.00
Common Stock, par value $5.00 per share—Authorized 700,000 shares; outstanding 573,911 shares, after deducting 3,661 shares in treasury (January 31, 1947—575,535 shares)	2,869,555.00	2,877,675.00
Capital surplus	805,697.33	839,218.33
Earned surplus	10,874,926.39	7,807,704.81
TOTAL CAPITAL STOCK AND SURPLUS	$23,544,878.72	$20,775,598.14
	$35,257,475.43	$31,772,137.45

to financial statements.

Notes to Financial Statements

STRAWBRIDGE & CLOTHIER

January 31, 1948

NOTE A—Inventories of merchandise on hand and in transit are priced at cost on the last-in, first-out basis, determined under principles and by the use of published indices of price changes approved by the Commissioner of Internal Revenue with respect to department stores generally. Such basis of pricing resulted in an aggregate amount for inventories at January 31, 1948, approximately $2,000,000.00 less than the amount which would have been determined under the retail inventory method applied without regard to last-in, first-out principles.

NOTE B—Term note payable to banks, is due in quarterly installments of $100,000.00 each. In addition to such periodic installments, the Company is required to pay on June 1st of each year an additional amount based on the net profit of the preceding fiscal year, as follows:

On first $ 400,000.00 of net profit	—
On next $1,600,000.00 of net profit	5%
On next $1,000,000.00 of net profit	10%
On any balance of net profit	15%

Any balance of the note remaining unpaid on March 1, 1955, matures on that date.

The loan agreement further provides that while the note remains unpaid, the Company will maintain minimum working capital of $5,000,000.00, except that such minimum requirement will be reduced $250,000.00 for each $500,000.00 paid by the Company in reduction of the principal of the note, but at no time shall the minimum be less than $3,500,000.00. Except as may be required to meet the sinking fund provisions of the $5.00 Cumulative Preferred Stock, the Company may not without approval of the banks retire or redeem any of its capital stock, if after giving effect to such redemption or retirement, the net working capital is reduced below $7,500,000.00.

NOTE C—Sinking fund provisions of the $5.00 Cumulative Preferred Stock require that on April 1, 1948, and annually thereafter, the Company shall redeem such stock of a par value equal to two percent of the greatest amount of $5.00 Cumulative Preferred Stock at any time outstanding.

NOTE D—Dividends on the $5.00 Cumulative Preferred Stock have been paid to January 1, 1948, a dividend date.